

February 28, 2022

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 3574 (Youakim) / S.F. 3572 (Rest)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
		(000's)		
K-12 Education Credit	\$0	(\$1,040)	(\$1,030)	(\$1,020)
K-12 Education Subtraction	<u>\$0</u>	<u>\$50</u>	<u>\$50</u>	<u>\$50</u>
General Fund Total	\$0	(\$990)	(\$980)	(\$970)

Effective beginning tax year 2022.

EXPLANATION OF THE BILL

Current Law: A taxpayer is allowed a refundable income tax credit equal to 75% of eligible education expenses for a qualifying child in kindergarten through 12th grade. The maximum credit is \$1,000 for each child. Eligible expenses include fees for instruction outside the regular school day or school year, expenses for textbooks or instructional materials, and transportation costs paid to others. Tuition is not an eligible expense. A maximum of \$200 per family for certain computer hardware and software is allowed.

The maximum credit is phased out beginning at household income of \$33,500. For taxpayers with one child, the maximum credit is reduced by one dollar for every four dollars of household income over \$33,500. For taxpayers with two or more children, the maximum credit is reduced by two dollars for every four dollars of household income over \$33,500. The phase-out range is increased by \$2,000 for each additional child. The income thresholds are not indexed for inflation. Household income includes income from all sources, both taxable and nontaxable.

Proposed Law: The proposal phases out the credit using federal adjusted gross income rather than total household income. The phase-out rates and maximum credit amount are unchanged.

REVENUE ANALYSIS DETAIL

- The estimate is based on a sample of 2019 individual income tax returns.
- In tax year 2019, K-12 education credits totaled \$7.2 million on 28,700 returns.
- Under the proposal, an additional 1,800 returns are expected to qualify for the credit. The average credit would be \$504. About 400 taxpayers in the current phase-out range would also receive an average increased credit of \$282.
- The credit has declined over the past several years, including a decline of about 20% in tax year 2020. This estimate assumes that the credit will return to 2019 levels by 2022 and will decline by 1% per year after that.

REVENUE ANALYSIS DETAIL (Cont.)

- Taxpayers who claim the credit cannot claim the subtraction for the same expenses. A marginal rate of 6% is used to calculate the impact of reduced subtractions under the proposal.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers: About 2,300 taxpayers would be affected in tax year 2022. The average decrease in tax would be \$462.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
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hf3574(sf3572)_1 K12 Credit Phaseout by FAGI / tj cw